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**GENERAL FUND REVENUE FORECAST
FOR FISCAL YEAR 2002-03**



**State of South Carolina
South Carolina Budget and Control Board
Board of Economic Advisors**

November 7, 2001

**James Bradley, Jr.
Chairman**

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To The Governor, South Carolina Budget and Control Board, and members of the General Assembly:

In accordance with Section 11-9-880 of the South Carolina Code of Laws, the Board of Economic Advisors (BEA) met November 7, 2001 to adopt a General Fund Revenue estimate for FY2002-03. After considering many recent deteriorating economic trends, the September 11th terrorist attacks on the U.S., and other factors, the BEA adopted a General Fund revenue estimate of \$5,841 million for FY2002-03.

The BEA had previously met in October and lowered its estimate for FY2001-02 by \$310 million to \$5,609 million. In the November meeting, the BEA reaffirmed the FY2001-02 estimate adopted in October. The estimate for FY2002-03 was based on the revised estimate for FY2001-02.

In accordance with Section 11-11-150, the BEA is required to deduct amounts from the individual and corporate income tax sufficient to pay reimbursements from the Property Tax Relief Trust Fund. In FY2001-02, the Property Tax Relief Trust Fund is an estimated \$460,741,257 and is an estimated \$480,086,257 in FY2002-03.

Base Economic Assumptions for FY2001-02 and FY2002-03

Personal Income: Through the second quarter of 2001, the latest data available, wages and salaries in the state grew at 4.7%. The BEA expects these rates of growth to decline in light of the slowing national and state economies. The BEA projects income growth to slow to the range of 2.75% for the balance FY2001-02 and to gradually increase throughout the forecast period to the range of 5.0% in FY2002-03, which is lower than the long-term growth rate of 5.9%.

Employment: Job growth in the state during the past ten years has increased at an average annual rate of 2.0%. With the economy softening and labor markets weakening, the recent rapid rate of job growth is not expected to continue. Consequently, the forecast is for -0.25% job growth in FY2001-02 and recovering to 1.5% in FY2002-03, lower than the last ten years' average annual rate of 2.0%.

Salaries: Salaries have increased 3.8% per year over the past ten years. With firms facing increased pressure to cut costs, the forecast assumes that salaries will increase at a rate of growth less than the past ten years' average throughout the forecast period, increasing at 2.5% in FY2000-01 and 3.0% FY2001-02.

Inflation: Inflation averaged 2.7% over the past ten years. Although the rate of inflation had risen to 3.7% in mid-FY2000-01 largely due to increased energy prices for crude oil and natural gas, energy prices have recently subsided, mitigating the rate of inflation to

2.1% in October 2001. The forecast assumes that inflation will increase at 2.5% in FY2001-02 and 3.0% FY2002-03.

Adjustments Impacting Revenue in the General Fund

Federal Changes Affecting the Estate Tax: During Federal Fiscal Year 2000-01, Congress passed "The Economic Growth and Tax Relief Reconciliation Act of 2001". The Act increased the amount that can be exempted from a taxpayer's estate from \$675,000 to \$1,000,000 for all deaths that occur during calendar year 2002. Also, the credit for state death taxes was reduced by 25% for calendar year 2002, and is subsequently reduced an additional 25% each calendar year until the state tax credit is fully removed in calendar year 2005. This will essentially phase out the state Estate Tax by FY2005-06. During FY2000-01, the Estate Tax amounted to \$51.7 million. Since South Carolina uses the federal state tax credit to compute the amount of estate taxes due to the state, the federal reduction in the state tax credit will reduce South Carolina estate taxes. The BEA has reduced the Estate Tax by \$15.5 million in FY2002-03 to account for the federal tax law changes.

Job Development Fees: Job development fees are a portion of an employee's withholdings that a qualified company may set aside to be used for infrastructure improvements and capital expansions of the facility itself. The percentage of withholdings set aside is between 2% and 5% based on an employee's hourly wage rate. According to the Department of Revenue, total job development and retraining fees

claimed by qualified companies was \$12.6 million in FY1999-00 and \$27.6 million in FY2000-01. The rapid rise in job development and retraining fees claimed by companies has been much higher than originally forecast. The BEA has included an adjustment of \$10 million in FY2002-03 to account for the incremental growth in these fees.

Earnings On Investments: In response to revised estimates of earnings on investments provided by the State Treasurer, the BEA revised its estimate for FY2001-02 to \$55 million, and set the estimate at \$42 million in FY2002-03.

Summary of FY2002-03 General Fund Revenue Forecast

After taking into consideration the economic and legislative impacts that will affect both the FY2001-02 and FY2002-03 General Fund Revenue estimates, the BEA revised its estimate for FY2001-02 downward by \$310 million from the FY2001-02 Appropriation Act, and adopted a revised General Fund revenue estimate of \$5,608,924,911 for FY2001-02, before allowing for the transfer of \$460,741,257 to the Property Tax Relief Trust Fund.

Allowing for that same transfer, the FY2001-02 Appropriation Act of \$5,918,924,911 would afford net General Fund revenue collections of \$5,458,183,654 in FY2001-02.

The BEA also adopted a General Fund revenue estimate of \$5,840,981,915 for FY2002-03. This estimate is \$78 million less than the FY2001-02 Appropriation Act. FY2002-03 will require the transfer of \$480,086,257 to the Property Tax Relief Trust Fund, thus net General Fund revenue collections in FY2002-03 will be \$5,360,895,658. After accounting for the Property Tax Relief Trust Funds in both FY2001-02 and FY2002-03, there will be \$97 million less new money available for appropriations in FY2002-03 than in FY2001-02. Total General Fund revenue is forecast to grow 2.3% in FY2001-02 and 4.1% in FY2002-03 from the revised FY2001-02 estimate.

**Preliminary General Fund Revenue Estimate
Fiscal Years 2001-2002 and 2002-2003
Base Economic Assumptions**

Variable	Growth Rates		
	FY2001-02	FY2002-03	FY2002-03
	Oct. 18, 2001 Estimate	Oct. 18, 2001 Proposal	Nov. 1, 2001 Regional Advisory Committee Consensus
Income	2.75 %	5.9 %	5.0 %
Employment	-0.25 %	2.0 %	1.5 %
Salaries	2.5 %	3.0 %	3.0 %
Other Income	0.5 %	0.9 %	0.5 %

BEA/RWM/11/5/01

Tax Relief Trust Fund

	Homestead Exemption	Residential Property Tax Exemption	Manufacturers' Depreciation Reimbursement	Merchant's Inventory Tax Exemption	Total
TY 1996	\$47,956,105	\$216,942,851	n/a	\$40,557,257	\$305,456,213
TY 1997	\$49,557,883	\$227,400,845	n/a	\$40,557,257	\$317,515,985
TY 1998	\$51,329,733	\$237,849,369	\$23,614,194	\$40,557,257	\$353,350,553
TY 1999	\$53,579,824	\$251,576,947	\$35,729,165	\$40,557,257	\$381,443,193
TY 2000	\$119,783,281	\$241,614,944	\$38,746,703	\$40,557,257	\$440,702,185
<i>TY 2001</i>	<i>\$124,488,000</i>	<i>\$253,696,000</i>	<i>\$42,000,000</i>	<i>\$40,557,257</i>	<i>\$460,741,257</i>
<i>TY 2002</i>	<i>\$129,468,000</i>	<i>\$266,381,000</i>	<i>\$43,680,000</i>	<i>\$40,557,257</i>	<i>\$480,086,257</i>
	Percent Change	Percent Change	Percent Change	Percent Change	Percent Change
TY 1996					
TY 1997	3.34%	4.82%		0.00%	3.95%
TY 1998	3.58%	4.59%		0.00%	11.29%
TY 1999	4.38%	5.77%	51.30%	0.00%	7.95%
TY 2000	123.56%	-3.96%	8.45%	0.00%	15.54%
<i>TY 2001</i>	<i>3.93%</i>	<i>5.00%</i>	<i>8.40%</i>	<i>0.00%</i>	<i>4.55%</i>
<i>TY 2002</i>	<i>4.00%</i>	<i>5.00%</i>	<i>4.00%</i>	<i>0.00%</i>	<i>4.20%</i>

PERSONAL INCOME GROWTH:
FY02 - 2.75%; FY03 - 5.0%

GENERAL FUND REVENUE FORECAST
FISCAL YEARS 1999-00 TO 2002-03
(DOLLARS)

REVENUE CATEGORIES	FINAL FY 1999-00	FINAL FY 2000-01	11/7/01 ESTIMATE FY 2001-02	11/7/01 ESTIMATE FY 2002-03	PERCENT CHANGE FY99/FY00	PERCENT CHANGE FY00/FY01	PERCENT CHANGE FY01/FY02	PERCENT CHANGE FY02/FY03
RETAIL SALES TAX 1/	1,964,063,469	2,011,932,162	2,081,727,483	2,154,505,220	4.8	2.4	2.5	4.5
EXCISE, CASUAL SALES TAX	16,728,888	16,476,316	16,884,105	17,643,890	4.0	-1.5	2.5	4.5
LESS: SALES TAX HOLIDAY		(3,600,000)	(3,708,000)	(3,819,240)				
LESS: TAX ON FOOD BY ONE-CENT		(24,600,000)						
INDIVIDUAL INCOME TAX	2,584,060,632				6.5			
LESS: WITHHOLDING TABLES								
LESS: CAPITAL GAINS REDUCTION	(10,017,028)							
LESS: RETIREE EXEMPTION	(36,900,000)							
LESS: DOUBLE CHILD EXEMPTION	(40,804,000)							
LESS: TUITION TAX CREDIT	(16,900,000)							
LESS: ECONOMIC IMPACT ZONES	(2,928,200)							
LESS: AFDC CREDIT	(6,388,800)							
LESS: EXTENSION OF S-CORPS	(2,000,000)							
LESS: RURAL DEV. AUTHORITY	(2,731,818)							
LESS: JOB DEVELOPMENT FEES	(28,409,681)			(10,000,000)				
LESS: IRS TAX CODE CONFORMITY	(4,500,000)							
PLUS: FED CAP GAIN RATE CHANGE								
PLUS: PROPERTY TAX RELIEF	12,077,502							
NET INDIVIDUAL INCOME TAX	2,445,558,607	2,498,818,065	2,582,526,383	2,727,477,966	6.4	2.2	3.3	5.6
CORPORATION INCOME TAX	183,086,745				-15.5			
PLUS: INVESTMENT TAX CREDIT ADJ.	24,888,000							
NET CORPORATION INCOME TAX	207,954,745	212,851,625	199,284,619	199,284,619	-13.7	2.4	-6.4	0.0
SALES AND INCOME TAXES	4,634,305,709	4,711,878,168	4,856,714,590	5,095,092,454	4.6	1.7	3.1	4.9
ADMISSIONS/BINGO TAX	30,991,554	32,499,307	34,091,773	35,762,270	379.1	4.9	4.9	4.9
AIRCRAFT TAX	3,321,402	3,996,070	3,327,927	3,117,935	8.4	20.3	-16.7	-6.3
ALCOHOLIC LIQUOR TAX	51,334,622	55,230,023	56,334,623	57,461,316	-0.5	7.6	2.0	2.0
LESS: COUNTY DISTRIBUTION	(4,271,850)	(3,396,475)	(3,396,475)	(3,396,475)	-3.6	-20.5	0.0	0.0
LESS: ANNUAL SUNDAY SALES LICENSE		(2,800,000)	(2,800,000)	(2,800,000)				
BANK TAX	17,312,518	9,357,172	9,572,387	9,792,552	32.5	-46.0	2.3	2.3
BEER AND WINE TAX	88,445,604	88,395,229	90,074,738	91,786,158	4.3	-0.1	1.9	1.9
BUSINESS LICENSE TAX	29,684,747	29,496,972	29,054,517	28,618,700	-1.5	-0.6	-1.5	-1.5
COIN-OPERATED DEVICES	13,078,211	2,508,702	2,500,000	2,500,000	-79.3	-80.8	-0.3	0.0
CORPORATION LICENSE TAX	50,355,116	64,432,074	64,653,678	68,036,362	32.1	28.0	0.3	5.2
DEPARTMENTAL REVENUE 3/	58,243,360	56,653,011	56,243,360	56,243,360	-13.0	-2.7	-0.7	0.0
DOCUMENTARY TAX	32,836,846	31,949,533	34,601,344	37,473,256	8.5	-2.7	8.3	8.3
EARNED ON INVESTMENTS	73,673,551	77,309,511	55,000,000	42,000,000	0.8	4.9	-28.9	-23.6
ELECTRIC POWER TAX	22,307,095	23,494,323	24,293,130	25,119,096	7.0	5.3	3.4	3.4
ESTATE AND GIFT TAXES	43,084,828	49,487,886	51,665,355	53,938,631	-24.7	14.9	4.4	4.4
LESS: FEDERAL CHANGE TO ESTATE TAX				(15,500,000)				
FERTILIZER INSPECTION TAX	174,077	190,951	200,000	200,000	-25.1	9.7	4.7	0.0
GROSS INSURANCE TAX	106,014,974	115,417,498	112,876,313	125,360,091	-1.5	8.9	-2.2	11.1
LESS: INSURANCE CREDITS	(10,024,710)	(7,094,397)	(6,666,563)	(7,650,000)	18.2	-29.2	-6.0	14.8
MOTOR TRANSPORT FEES	7,518	(31,536)	2,500	2,500	-27.2	-519.5	-107.9	0.0
MOTOR VEHICLE LICENSES	116,018,422	114,567,107	116,858,449	119,195,618	8.3	-1.3	2.0	2.0
LESS: INFRAST. BANK TRANSFER-TRUCK	(58,963,932)	(50,007,579)	(51,166,314)	(54,508,261)				
LESS: HIGHWAY FUND TRANSFER-CAR		(7,466,341)	(9,307,032)	(12,937,471)				
PETROLEUM INSPECTION TAX	7,892,766	7,918,562	8,241,141	8,579,025	4.5	0.3	4.1	4.1
PRIVATE CAR LINES TAX	2,687,148	3,185,988	3,491,843	3,827,060	9.6	18.6	9.6	9.6
PUBLIC SERVICE AUTHORITY	8,497,296	9,216,414	9,824,697	10,473,127	7.8	8.5	6.6	6.6
RETAILERS LICENSE TAX	900,140	895,904	806,314	822,440	-18.4	-0.5	-10.0	2.0
SAVINGS & LOAN TAX	1,893,351	2,299,239	2,368,216	2,439,263	-45.7	21.4	3.0	3.0
SOFT DRINKS TAX	11,060,407	5,697,917	0	0	-28.7	-48.5	-100.0	N/A
WORKERS COMP. INSURANCE	9,384,677	8,851,251	9,028,276	9,208,842	6.7	-5.7	2.0	2.0
CIRCUIT/FAMILY COURT FINES	8,910,897	9,715,177	9,997,946	10,287,887	2.1	9.0	2.9	2.9
DEBT SERVICE TRANSFERS	3,262,389	3,750,469	3,750,469	3,750,469	-87.3	15.0	0.0	0.0
INDIRECT COST RECOVERIES	21,948,220	22,893,411	22,893,411	22,893,411	-0.7	4.3	0.0	0.0
MENTAL HEALTH FEES	3,800,000	3,800,000	3,800,000	3,800,000	0.0	0.0	0.0	0.0
PAROLE / PROBATION FEES	3,392,298	3,392,298	3,392,298	3,392,298	-0.0	0.0	0.0	0.0
UNCLAIMED PROPERTY FUND	5,700,000	6,600,000	6,600,000	6,600,000	-53.5	15.8	0.0	0.0
WASTE TREATMENT REPAYMENT	69,006	0	0	0	9263.1	-100.0	N/A	N/A
OTHER BASE SOURCES	753,022,545	772,414,671	752,210,321	745,889,461	-10.3	2.6	-2.6	-0.8
TOTAL GENERAL FUND REVENUE	5,387,328,255	5,484,292,839	5,608,924,911	5,840,981,915	2.3	1.8	2.3	4.1
APPROPRIATION ACT REVENUE	5,322,173,572	5,713,752,563	5,918,924,911		6.3	7.4	3.6	
LESS: TAX RELIEF TRUST FUND	(381,443,193)	(440,702,185)	(480,741,257)	(480,086,257)				
EXCLUDING TRUST FUND	4,945,426,572	5,273,050,378	5,458,183,654	5,360,895,658				
CAPITAL RESERVE FUND (2%)	96,914,031	98,610,931	100,134,739	101,606,475	5.6	1.8	1.5	1.5
GENERAL RESERVE FUND (3%)	145,371,047	147,916,397	62,809,101		5.6	1.8	-57.5	-100.0
TOTAL RESERVES	242,285,078	246,527,328	162,943,840	101,606,475	5.6	1.8	-33.9	-37.6
REVENUE EXCESS / SHORTAGE	65,154,683	(229,459,724)	(310,000,000)					
EDUCATION IMPROVEMENT ACT 2/	499,748,081	509,892,204	520,125,897	543,582,467	5.1	2.0	2.0	4.5
EIA FUND	496,022,419	506,084,990	518,725,897	542,082,467	4.9	2.0	2.5	4.5
EIA INTEREST	3,725,662	3,807,214	1,400,000	1,500,000	44.8	2.2	-63.2	7.1

1/ Excludes (1%) Education Improvement Act and (2%) Accommodations Taxes.

2/ Includes interest earnings.

3/ Includes former Dept. of Agriculture agency revenue other than the Petroleum Inspection Tax now shown separately.

Source: S. C. Board of Economic Advisors /11/7/01